

AUDIT REPORT

TOWN OF COLCORD, OKLAHOMA

JUNE 30, 2013



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF COLCORD, OKLAHOMA
JUNE 30, 2013

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TOWN OF COLCORD, OKLAHOMA
JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Colcord, Oklahoma

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Colcord, Oklahoma, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management did not properly record transactions in the books of account; Management did not assume responsibility for the selection and method of appropriate accounting principles and their application; Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements, including reviewing proposed entries and understanding the nature and impact of proposed entries to the financial statements; Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for adjusting the financial

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statements for all material adjustments, individually and in the aggregate, to the financial statements taken as a whole. As a result, we were unable to determine whether any adjustments to the amounts reported were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

The Town of Colcord, Oklahoma has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town has not presented the Management's Discussion and Analysis or Budgetary Comparison Information required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2014, on our consideration of the Town of Colcord, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Colcord, Oklahoma's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

April 29, 2014

TOWN OF COLCORD, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2013

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---------------------------------------|------------------------------------|-------------------------------------|----------------------------|
| <u>ASSETS</u> | | | |
| <u>Current Assets:</u> | | | |
| Cash, including time deposits | \$ 38,708 | 18,728 | \$ 57,436 |
| Deposit with county | 195,880 | - | 195,880 |
| Taxes receivable | 28,148 | - | 28,148 |
| Accounts receivable, Net | - | 17,338 | 17,338 |
| Grants receivable | - | 48,500 | 48,500 |
| Total Current Assets | <u>262,736</u> | <u>84,566</u> | <u>347,302</u> |
| <u>Noncurrent Assets:</u> | | | |
| <u>Restricted Assets:</u> | | | |
| Cash, including time deposits | - | 43,335 | 43,335 |
| Due from general operations | - | 12,783 | 12,783 |
| Capital assets, net of Accum. Depr. | 386,439 | 1,317,090 | 1,703,529 |
| Total Noncurrent Assets | <u>386,439</u> | <u>1,373,208</u> | <u>1,759,647</u> |
| TOTAL ASSETS | <u>649,175</u> | <u>1,457,774</u> | <u>2,106,949</u> |
| <u>LIABILITIES</u> | | | |
| <u>Current Liabilities:</u> | | | |
| Accounts payable and accrued expenses | 9,099 | 65,536 | 74,635 |
| Due to restricted assets | - | 12,783 | 12,783 |
| Current Portion of Long-Term Debt | - | 11,301 | 11,301 |
| Total Current Liabilities | <u>9,099</u> | <u>89,620</u> | <u>98,719</u> |
| <u>Long-Term Liabilities:</u> | | | |
| Customer deposits payable | - | 33,384 | 33,384 |
| Long-Term Debt | - | 374,088 | 374,088 |
| Total Noncurrent Liabilities | <u>-</u> | <u>407,472</u> | <u>407,472</u> |
| TOTAL LIABILITIES | <u>9,099</u> | <u>497,092</u> | <u>506,191</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 386,439 | 889,641 | 1,276,080 |
| <u>Restricted for:</u> | | | |
| Debt Service | - | 56,118 | 56,118 |
| Other Purposes | 245,326 | - | 245,326 |
| Unrestricted | 8,311 | 14,923 | 23,234 |
| TOTAL NET POSITION | <u>\$ 640,076</u> | <u>\$ 960,682</u> | <u>\$ 1,600,758</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COLCORD, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses)/ Revenue |
|---------------------------------------|-------------------|-------------------------|--|--|-------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| General Government | \$ 95,791 | \$ - | \$ 12,090 | \$ - | \$ (83,701) |
| Public Safety: | | | | | |
| Police and First Responders | 67,280 | 9,893 | - | - | (57,387) |
| Fire Dept | 28,545 | 12,699 | 3,583 | - | (12,263) |
| Civil Defense | 2,231 | - | 2,672 | - | 441 |
| Highways & Streets | 26,210 | - | 332 | 12,000 | (13,878) |
| Total Governmental Activities | 220,057 | 22,592 | 18,677 | 12,000 | (166,788) |
| Business-type activities: | | | | | |
| Water, Sewer & Sanitation | 285,169 | 223,982 | 600 | 48,500 | (12,087) |
| Total Business-type Activities | 285,169 | 223,982 | 600 | 48,500 | (12,087) |
| Total | \$ 505,226 | \$ 246,574 | \$ 19,277 | \$ 60,500 | \$ (178,875) |

Changes in Net Position:

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Net (expense)/revenue | \$ (166,788) | \$ (12,087) | \$ (178,875) |
| General revenues: | | | |
| Taxes: | | | |
| Franchise Tax | 13,697 | - | 13,697 |
| Sales Tax | 123,147 | - | 123,147 |
| Use Tax | 16,616 | - | 16,616 |
| Cigar Tax | 825 | - | 825 |
| Intergovernmental: | | | |
| Alcoholic Beverage Tax | 8,965 | - | 8,965 |
| Gasoline Excise Tax | 1,502 | - | 1,502 |
| Motor Vehicle Tax | 5,912 | - | 5,912 |
| Miscellaneous Income | 7,097 | - | 7,097 |
| Interest Income | 445 | 26 | 471 |
| Transfers - Internal Activity | - | - | - |
| Total general revenues & transfers | 178,206 | 26 | 178,232 |
| Changes in net position | 11,418 | (12,061) | (643) |
| Net position - beginning | 628,658 | 972,743 | 1,601,401 |
| Net position - prior year adjustment | - | - | - |
| Net position - ending | \$ 640,076 | \$ 960,682 | \$ 1,600,758 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF COLCORD, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

| | General Fund | County-Wide Fire Dept. Fund | Fire Department Fund | Street & Drainage Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------|-----------------------------------|----------------------------|------------------------------|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | | | |
| Cash, including time deposits | \$ 3,047 | \$ - | \$ 23,701 | \$ 8,178 | \$ 3,782 | \$ 38,708 |
| Deposits with county | - | 195,880 | - | - | - | 195,880 |
| Taxes receivable | 15,038 | 11,175 | - | 1,935 | - | 28,148 |
| Due from other funds | - | - | - | 1,344 | - | 1,344 |
| TOTAL ASSETS | \$ 18,085 | \$ 207,055 | \$ 23,701 | \$ 11,457 | \$ 3,782 | \$ 264,080 |
| <u>LIABILITIES & FUND EQUITY</u> | | | | | | |
| LIABILITIES: | | | | | | |
| Accounts Payable | \$ 8,430 | \$ - | \$ 669 | \$ - | \$ - | \$ 9,099 |
| Due to other funds | 1,344 | - | - | - | - | 1,344 |
| TOTAL LIABILITIES | 9,774 | - | 669 | - | - | 10,443 |
| FUND BALANCES: | | | | | | |
| Nonspendable | - | - | - | - | - | - |
| Restricted | - | - | - | - | - | - |
| Committed | - | - | - | - | - | - |
| Assigned | - | 207,055 | 23,032 | 11,457 | 3,782 | 245,326 |
| Unassigned | 8,311 | - | - | - | - | 8,311 |
| TOTAL FUND BALANCES | 8,311 | 207,055 | 23,032 | 11,457 | 3,782 | 253,637 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 18,085 | \$ 207,055 | \$ 23,701 | \$ 11,457 | \$ 3,782 | \$ 264,080 |

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|---|---------|
| Capital assets used in governmental activities of \$386,439, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. | 386,439 |
|---|---------|

| | |
|--|---|
| Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. | - |
|--|---|

| | |
|--|-------------------|
| Net Position of Governmental Activities | \$ 640,076 |
|--|-------------------|

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COLCORD, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | County-Wide Fire Dept. Fund | Fire Department Fund | Street & Drainage Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------|-----------------------------------|----------------------------|------------------------------|--------------------------------|--------------------------------|
| REVENUES: | | | | | | |
| Taxes: | | | | | | |
| Franchise Tax | \$ 13,697 | \$ - | \$ - | \$ - | \$ - | \$ 13,697 |
| Sales Tax | 63,023 | 60,124 | - | - | - | 123,147 |
| Use Tax | 16,616 | - | - | - | - | 16,616 |
| Cigar Tax | 825 | - | - | - | - | 825 |
| Intergovernmental: | | | | | | |
| Alcoholic Beverage Tax | 8,965 | - | - | - | - | 8,965 |
| Gasoline Excise Tax | - | - | - | 1,502 | - | 1,502 |
| Motor Vehicle Tax | - | - | - | 5,912 | - | 5,912 |
| Grants and contributions | 12,090 | - | 3,583 | 12,332 | 2,672 | 30,677 |
| Fines & Forfeitures | 9,893 | - | - | - | - | 9,893 |
| Miscellaneous Income | 6,659 | - | 302 | 136 | - | 7,097 |
| Memberships | - | - | 12,699 | - | - | 12,699 |
| Interest Income | - | 435 | - | 10 | - | 445 |
| TOTAL REVENUES | 131,768 | 60,559 | 16,584 | 19,892 | 2,672 | 231,475 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General Government | 95,791 | - | - | - | - | 95,791 |
| Public Safety: | | | | | | |
| Police and First Responders | 67,280 | - | - | - | - | 67,280 |
| Fire Dept. | - | 6,847 | 21,698 | - | - | 28,545 |
| Civil Defense | - | - | - | - | 2,231 | 2,231 |
| Highways & Streets | - | - | - | 26,210 | - | 26,210 |
| Capital Outlay | 4,500 | 30,586 | - | 16,700 | - | 51,786 |
| TOTAL EXPENDITURES | 167,571 | 37,433 | 21,698 | 42,910 | 2,231 | 271,843 |
| EXCESS OF REVENUES OVER (UNDER) | | | | | | |
| EXPENDITURES | (35,803) | 23,126 | (5,114) | (23,018) | 441 | (40,368) |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Operating Transfers In | 15,000 | - | - | - | - | 15,000 |
| Operating Transfers Out | - | - | - | (15,000) | - | (15,000) |
| Capital Debt Proceeds | - | - | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 15,000 | - | - | (15,000) | - | - |
| NET CHANGES IN FUND BALANCES | (20,803) | 23,126 | (5,114) | (38,018) | 441 | (40,368) |
| FUND BALANCE - BEGINNING OF YEAR | \$ 29,114 | 183,929 | 28,146 | 49,475 | 3,341 | 294,005 |
| FUND BALANCE - PRIOR YEAR ADJUSTMENT | - | - | - | - | - | - |
| FUND BALANCE - END OF YEAR | \$ 8,311 | \$ 207,055 | \$ 23,032 | \$ 11,457 | \$ 3,782 | 253,637 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COLCORD, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Reconciliation to Statement of Activities:

| | |
|--|-------------|
| Net change in fund balances - total governmental funds | \$ (40,368) |
|--|-------------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

| | |
|--|---|
| Capital debt obligation principal payments | - |
|--|---|

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

| | |
|-----------------------|---|
| Capital Debt Proceeds | - |
|-----------------------|---|

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

| | |
|-------------------------------------|--------|
| Capital asset purchases capitalized | 51,786 |
|-------------------------------------|--------|

| | |
|----------------------|---|
| Depreciation expense | - |
|----------------------|---|

| | |
|--|--|
| | <div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 11,418</div> |
|--|--|

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF COLCORD, OKLAHOMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

| | <u>Colcord Public Works Authority Enterprise Fund June 30, 2013</u> |
|---|---|
| <u>ASSETS</u> | |
| Current Assets: | |
| Cash and cash equivalents | \$ 18,728 |
| Accounts receivable | 17,338 |
| Grants receivable | 48,500 |
| | <hr/> |
| Total Current Assets | 84,566 |
| | <hr/> |
| Noncurrent Assets: | |
| Restricted assets: | |
| Cash and cash equivalents | 43,335 |
| Due from general assets | 12,783 |
| Capital assets, net of accumulated depreciation | 1,317,090 |
| | <hr/> |
| Total Noncurrent Assets | 1,373,208 |
| | <hr/> |
| TOTAL ASSETS | 1,457,774 |
| | <hr/> |
| <u>LIABILITIES:</u> | |
| Current Liabilities: | |
| Accounts payable and accrued expenses | 65,536 |
| Due to restricted assets | 12,783 |
| Current Portion of Long-Term Debt | 11,301 |
| | <hr/> |
| Total Current Liabilities | 89,620 |
| | <hr/> |
| Noncurrent Liabilities: | |
| Customers' meter deposits | 33,384 |
| Long-term debt | 374,088 |
| | <hr/> |
| Total Noncurrent Liabilities | 407,472 |
| | <hr/> |
| TOTAL LIABILITIES | 497,092 |
| | <hr/> |
| <u>NET POSITION:</u> | |
| Net investment in capital assets | 889,641 |
| Restricted for debt service | 56,118 |
| Unrestricted | 14,923 |
| TOTAL NET POSITION | \$ 960,682 |
| | <hr/> <hr/> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COLCORD, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Colcord Public Works Authority Enterprise Fund June 30, 2013 |
|---|---|
| <u>OPERATING REVENUES:</u> | |
| Charges for Services | \$ 203,802 |
| Miscellaneous Income | 20,180 |
| TOTAL OPERATING REVENUES | 223,982 |
| <u>OPERATING EXPENSES:</u> | |
| Legal and professional | 2,100 |
| Salaries & related expenses | 63,675 |
| Maintenance & Operations | 110,650 |
| Septic service | 40,053 |
| Depreciation | 52,629 |
| TOTAL OPERATING EXPENSES | 269,107 |
| NET OPERATING INCOME (LOSS) | (45,125) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Interest Income | 26 |
| Interest Expense | (16,062) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | (16,036) |
| NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS | (61,161) |
| Capital Contributions | 49,100 |
| Transfers in | - |
| Transfers out | - |
| CHANGE IN NET POSITION | (12,061) |
| TOTAL NET POSITION - BEGINNING | 972,743 |
| TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT | - |
| TOTAL NET POSITION - ENDING | \$ 960,682 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF COLCORD, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>June 30, 2013</u> |
|--|-------------------------|
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Receipts from Customers | \$ 224,972 |
| Payments to Suppliers & Laborers | (208,588) |
| Customer Meter Deposits Received, Net of Refunded | <u>888</u> |
| Net Cash Provided (Used) by Operating Activities | <u>17,272</u> |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | |
| Transfers to other funds | - |
| Transfers from other funds | <u>-</u> |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>-</u> |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | |
| Additions to Capital Assets | (5,404) |
| Capital Contributions | 600 |
| Loan Proceeds received | - |
| Principal paid on Long-Term Debt | (11,242) |
| Interest paid | <u>(16,062)</u> |
| Net Cash Provided (Used) by Capital & Related Financing Activities | <u>(32,108)</u> |
| <u>Cash Flows from Investing Activities:</u> | |
| Additions to Restricted Cash & Cash Equivalents | - |
| Interest Income | <u>26</u> |
| Net Cash Provided (Used) by Investing Activities | <u>26</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (14,810) |
| Cash & Cash Equivalents, Beginning of Year | 76,873 |
| Cash & Cash Equivalents, Prior Year Adjustment | <u>-</u> |
| Cash & Cash Equivalents, End of Year | <u><u>\$ 62,063</u></u> |
| <u>Reconciliation of operating income (loss) to net cash provided operating activities:</u> | |
| Operating Income (Loss) | \$ (45,125) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | |
| Depreciation | 52,629 |
| (Increase)Decrease in Accounts Receivable | 990 |
| Increase(Decrease) in Accounts Payable | 7,890 |
| Increase(Decrease) in Customer Meter Deposits Payable | <u>888</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ 17,272</u></u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Town of Colcord, Oklahoma is incorporated and operates under a statutory town form of government as directed by Title 11 of the Oklahoma statutes. The duties of the mayor are set forth in Title 11 and the Town is governed by five board members each representing a ward within the Town. Major operations include police and fire protection, parks and recreation, public works, sanitation and streets, and general administrative services.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Fund Types

The General Fund is the primary operating fund of the Town. It accounts for all financial resources of general government, except those required to be accounted for in another fund.

The Special Revenue Funds account for revenue sources that are legally restricted to expenditures. Special revenue funds consist of the Fire Department, Street & Alley, and Civil Defense funds. Additionally, the Countywide Fire Department Fund, which is administered by Delaware County for the Colcord Fire Department, is included.

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Proprietary Fund Types

The PWA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as water, sewer and trash disposal, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. Basis of Accounting

The Town of Colcord prepares its financial statements on the accrual basis of accounting. However, for Fund Financial Statements, capital outlay and long-term debt activity, if any, are recorded as expenditures and revenues. These are then reclassified for the Statements of Net Position and Activities.

D. Budget and Budgetary Procedures

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

E. Cash and Cash Equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

F. Accounts Receivable

Management has not established an allowance for uncollectible accounts receivable. Accounts are written off as bad debt expense when it is deemed that they are uncollectible. The allowance for doubtful accounts was considered immaterial for reporting purposes.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded as historical cost or estimated historical cost if purchased or constructed. The capitalization threshold has been set at \$1,000.00. Donated assets are recorded at estimated fair market values as of the date of the donation.

The costs of normal maintenance are repairs that do not add to the value or capacity of the asset or materiality extend assets lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|----------------------------|--------------|
| Water Plant & Sewer System | 40 |
| Automobiles & Equipment | 5 |
| Building | 20 |

H. Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments;

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The purposes of each major special revenue fund and revenue source is listed below:

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
|-----------------------------------|---|
| County-Wide Fire Dept. Fund | County Tax |
| Street & Alley Fund | Commercial Vehicle Tax Gasoline Excise Tax Grant Income |
| Fire Department Fund | Grant Income Membership Fees Contributions |

I. Revenues, expenditures and expenses

Property Tax

For the year ended June 30, 2013, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

| | | |
|---------------------------|--------------------------|---------|
| Governmental Fund Types - | By Character: | Current |
| | (further classified by | |
| | activity) Capital Outlay | |
| Proprietary Fund Types - | By Operating and Non- | |
| | Operating | |

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

J. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town's overall financial position and results of operations. However, the Town has chosen not to present the required MD&A for the current year.

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
- 2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Town has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

L. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at yearend are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities have been eliminated in the presentation of the government-wide financial statements.

M. Compensated Absences

At fiscal year end, no determination of the aggregate dollar value of vacation or sick pay had been made. The Town's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws,

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The annual budget required to be prepared and filed with the State Auditor and Inspector's office has not been prepared.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Town for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2013, the Town held deposits of approximately \$100,771 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Payments into a reserve account are required to meet the requirement of USDA Rural Development. The Colcord Public Works Authority is also required to deposit \$41.00, \$76.00, and \$118.00 per month into a Debt Reserve Account until \$28,092.00 is accumulated for USDA Rural Development. These reserve accounts may be combined and should only be used for operation in the event of an emergency and after approval of the USDA Rural Development. The Authority is not making the required monthly deposits.

Restricted cash represents amounts maintained in separate bank accounts for the purpose of segregating funds. Restricted cash consisted of the following:

| | |
|-------------------------|-----------------|
| Consumer Meter Deposits | \$20,601 |
| Debt Reserve | <u>22,733</u> |
| Total Restricted Cash | <u>\$43,334</u> |

Additionally, restricted assets have a \$12,783 receivable from general operations as a result of such operations borrowing from customer meter deposits.

NOTE 5 - CAPITAL ASSETS

The governmental fund type operations have not kept detailed capital assets records. These assets would include public domain infrastructure such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems. Capital assets include furniture, fixtures and equipment. No depreciation expense has been provided on such assets.

The proprietary fund also does not keep detailed capital asset records. The capital assets included in the financial statements do not reflect all capital assets owned by the PWA. For the proprietary fund type capital assets, the sale or disposal of such assets is recorded by removing cost and accumulated depreciation from the accounts, and charging the resulting gain or loss to income. Depreciation has been calculated on the sewer system using the straight-line method with an estimated useful life of 40 years.

Capital asset activity for the Authority, for the fiscal year ended June 30, 2013, was as follows:

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

| | 6/30/12 Balance | Additions | Deletions | 6/30/13 Balance |
|---------------------------|---------------------|-----------------|-------------|---------------------|
| Capital Assets: | | | | |
| Land | \$ 95,745 | \$ - | \$ - | \$ 95,745 |
| Buildings | 9,692 | - | - | 9,692 |
| Furniture & Equipment | 135,673 | - | - | 135,673 |
| Infrastructure | 2,078,286 | 53,725 | - | 2,132,011 |
| Total Capital Assets | 2,319,396 | 53,725 | - | 2,373,121 |
| Accumulated Depreciation: | | | | |
| Buildings | 9,692 | - | | 9,692 |
| Furniture & Equipment | 135,673 | - | | 135,673 |
| Infrastructure | 858,037 | 52,629 | | 910,666 |
| Total Accum. Depreciation | 1,003,402 | 52,629 | - | 1,056,031 |
| Net Capital Assets | <u>\$ 1,315,994</u> | <u>\$ 1,096</u> | <u>\$ -</u> | <u>\$ 1,317,090</u> |

Depreciation expense for the year ended June 30, 2013, aggregating \$52,629, has been computed on assets with a cost basis totaling \$2,373,121.

NOTE 6 - LONG-TERM DEBT

The Colcord Public Works Authority has the authority to incur long-term debt as needed for operations, maintenance, and expansion.

The Authority has three notes payable to the United States Department of Agriculture Rural Development (USDA), payable

| <u>Monthly Payment</u> | <u>Interest Rate</u> | <u>Date of Loan</u> |
|------------------------|----------------------|---------------------|
| \$ 401.00 | 5.00% | 9/10/74* |
| \$1,181.00 | 4.50% | 3/25/98 |
| \$ 759.00 | 4.50% | 6/21/01 |

*The first USDA loan was made off during the current year.

The Town of Colcord Public Works Authority has a note payable to the Oklahoma Department of Commerce, payable in monthly installments of \$312.50. This note is an interest free loan, payable in 240 monthly payments. The first payment was due by March 2002.

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

| Notes Payable: | Balance at June 30, 2012 | Additions | Deductions | Balance at June 30, 2013 |
|--------------------------|-----------------------------|-------------|--------------------|-----------------------------|
| USDA Rural Development ; | \$ 273 | \$ - | \$ (273) | \$ - |
| USDA Rural Development ; | 213,239 | - | (4,672) | 208,567 |
| USDA Rural Development ; | 146,932 | - | (2,547) | 144,385 |
| Department of Commerce | 36,188 | - | (3,750) | 32,438 |
| Total Long-Term Debt | <u>\$ 396,631</u> | <u>\$ -</u> | <u>\$ (11,242)</u> | <u>\$ 385,389</u> |

Debt Service Requirements to Maturity

USDA Rural Development #2:

| FYE June 30, | Principal | Interest | Total |
|--------------|-------------------|-------------------|-------------------|
| 2014 | \$ 4,886 | \$ 9,286 | \$ 14,172 |
| 2015 | 5,111 | 9,061 | 14,172 |
| 2016 | 5,346 | 8,826 | 14,172 |
| 2017 | 5,591 | 8,581 | 14,172 |
| 2018 | 5,848 | 8,324 | 14,172 |
| 2019-2023 | 33,526 | 37,334 | 70,860 |
| 2024-2028 | 41,968 | 28,892 | 70,860 |
| 2029-2033 | 52,536 | 18,324 | 70,860 |
| 2034-2037 | 53,755 | 5,296 | 59,051 |
| | <u>\$ 208,567</u> | <u>\$ 133,924</u> | <u>\$ 342,491</u> |

USDA Rural Development #3:

| FYE June 30, | Principal | Interest | Total |
|--------------|-------------------|-------------------|-------------------|
| 2014 | \$ 2,665 | \$ 6,443 | \$ 9,108 |
| 2015 | 2,788 | 6,320 | 9,108 |
| 2016 | 2,916 | 6,192 | 9,108 |
| 2017 | 3,050 | 6,058 | 9,108 |
| 2018 | 3,190 | 5,918 | 9,108 |
| 2019-2023 | 18,286 | 27,254 | 45,540 |
| 2024-2028 | 22,891 | 22,649 | 45,540 |
| 2029-2033 | 28,654 | 16,886 | 45,540 |
| 2034-2038 | 35,869 | 9,671 | 45,540 |
| 2039-2042 | 24,076 | 1,605 | 25,681 |
| | <u>\$ 144,385</u> | <u>\$ 108,996</u> | <u>\$ 253,381</u> |

Department of Commerce:

| FYE June 30, | Principal | Interest | Total |
|--------------|------------------|-------------|------------------|
| 2014 | \$ 3,750 | \$ - | \$ 3,750 |
| 2015 | 3,750 | - | 3,750 |
| 2016 | 3,750 | - | 3,750 |
| 2017 | 3,750 | - | 3,750 |
| 2018 | 3,750 | - | 3,750 |
| 2019-2022 | 13,687 | - | 13,687 |
| | <u>\$ 32,437</u> | <u>\$ -</u> | <u>\$ 32,437</u> |

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The Town's restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The Town currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2013, were as follows:

TOWN OF COLCORD, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

| OPERATING TRANSFERS: | <u>TRANSFERS IN</u> | <u>TRANSFERS OUT</u> |
|--------------------------------|---------------------|----------------------|
| GENERAL: | | |
| County-Wide Fire Dept Fund | \$ - | \$ - |
| Fire Department Fund | - | - |
| Street & Alley Fund | 15,000.00 | - |
| Civil Defense Fund | - | - |
| Colcord Public Works Authority | - | - |
| Total General Fund | <u>\$ 15,000.00</u> | <u>\$ -</u> |
| SPECIAL REVENUE FUNDS: | | |
| County-Wide Fire Dept. Fund: | | |
| General Fund | \$ - | \$ - |
| Colcord Public Works Authority | - | - |
| Fire Department Fund: | | |
| General Fund | - | - |
| Colcord Public Works Authority | - | - |
| Street & Alley Fund: | | |
| General Fund | - | 15,000.00 |
| Colcord Public Works Authority | - | - |
| Civil Defense Fund: | | |
| General Fund | - | - |
| Total Special Revenue Funds | <u>\$ -</u> | <u>\$ 15,000.00</u> |
| ENTERPRISE FUNDS | | |
| Colcord Public Works Authority | | |
| General Fund | \$ - | \$ - |
| Street & Alley Fund | - | - |
| Fire Department Fund | - | - |
| Total Enterprise Funds | <u>\$ -</u> | <u>\$ -</u> |
| | <u>\$ 15,000.00</u> | <u>\$ 15,000.00</u> |

NOTE 10 - SUBSEQUENT EVENTS

On July 22, 2013, the Town sent out notice to companies to which it had outstanding invoices stating, "Unfortunately, due to the previous Board's decisions of overspending the Town is now very heavily in debt." The letter also stated that "the situation will be resolved as quickly as possible with no possibility of this happening again."

In March and April 2014, three of the five board members resigned their positions due to conflict and other issues. This has left the town unable to hold meetings for lack of a quorum and will result in a special election later in the year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of Colcord, Oklahoma

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colcord, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Colcord, Oklahoma's basic financial statements, and have issued our report thereon dated April 29, 2014, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements. The Town of Colcord, Oklahoma has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Town did not present the required MD&A or Budgetary Comparison Information.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Colcord's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Colcord's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Colcord's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or

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significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 13-01, 13-02 and 13-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Colcord's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tested disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are included in the Schedule of Findings as Items 13-04 and 13-05. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Town of Colcord's Response to Findings

Town of Colcord's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Colcord's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

April 29, 2014

TOWN OF COLCORD, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

Internal Control Findings:

Item 13-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the Town.

Recommendation: The Town needs to prepare financial statements which will provide a better audit trail of financial transactions. Management needs to designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements.

Response: The Town is aware of the problem. However, the condition still exists.

Item 13-02: Meter Deposits

Criteria: It is the responsibility of the Town to properly report and account for the financial information.

Condition: The Meter Deposit Liability has not been accurately posted with all transactions. The Authority has a meter deposit ledger that can be kept in its WaterWorks program. The report has to be printed monthly and was not printed for any of the twelve months included in

TOWN OF COLCORD, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

the current fiscal year. Also, the Authority withdrew funds from the Meter Deposit account to use for operating cash.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account. The withdrawal has left the account with a deficit balance.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: The Town is aware of the problem.

Item 13-03: Bank Deposits

Criteria: Daily bank deposits reduce the risk of lost or stolen cash on hand.

Condition: Receipts are not being deposited on a daily basis. During the current audit, it was noted that deposits of revenues continue to be held in some cases for extended periods. Some franchise tax receipts from early in the fiscal year that were confirmed with outside entities have still not been deposited at yearend.

Cause: The cost of fuel for going to the bank to make daily deposits is such that the Town is not cost effectively able to make daily deposits.

Effect: These conditions result in weakened control over cash receipts and could result in excess cash being maintained on-hand during the month or checks being misplaced or lost.

Recommendation: All receipts should be deposited daily and not retained on-site.

Response: At this time the Town is not able to cost effectively make such deposits.

TOWN OF COLCORD, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

Compliance Findings:

Item 13-04: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain separate income and expense accounts for the water and sewer systems. The town began trying to separate some of the income but not all of it.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority is aware of the problem.

Item 13-05: Reserve Requirements

Criteria: The Authority's loan agreement with the USDA Rural Development requires the Authority to maintain reserve accounts. The reserve requirement for the loans is \$28,092, the Authority is required to set aside into a Reserve Account the sum of 10% of the monthly installments or \$235.00 each month until there is accumulated in that account the sum of the annual installments (\$28,092), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2012, the Authority was required to have at least \$26,100 set aside in the reserve account for the three loans.

Condition: The Authority has a loan reserve account with a balance of \$22,733 and is not making sufficient monthly deposits.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement.

Recommendation: The Authority should continue to deposit \$235.00 a month into the reserve account as required by Rural Development and make a deposit to bring the account into compliance.

Response: The Authority is aware of the problem.

TOWN OF COLCORD, OKLAHOMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

| | <u>SPECIAL REVENUE FUNDS</u> | Total |
|---|------------------------------|-----------------------------------|
| | Civil Defense Fund | Nonmajor Governmental Funds |
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 3,782 | \$ 3,782 |
| TOTAL ASSETS | <u>\$ 3,782</u> | <u>\$ 3,782</u> |
| <u>LIABILITIES & FUND BALANCES</u> | | |
| <u>LIABILITIES:</u> | | |
| Accounts Payable | \$ - | \$ - |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> |
| <u>FUND BALANCES:</u> | | |
| Nonspendable | - | - |
| Restricted | - | - |
| Committed | - | - |
| Assigned | 3,782 | 3,782 |
| Unassigned | - | - |
| TOTAL FUND BALANCES | <u>3,782</u> | <u>3,782</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 3,782</u> | <u>\$ 3,782</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT I

TOWN OF COLCORD, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | <u>SPECIAL REVENUE FUNDS</u> | <u>Total</u> |
|---|------------------------------|-----------------------------------|
| | Civil Defense Fund | Nonmajor Governmental Funds |
| <u>REVENUES:</u> | | |
| Taxes: | | |
| Sales Tax | \$ - | \$ - |
| Intergovernmental: | | |
| Gasoline Excise Tax | - | - |
| Motor Vehicle Tax | - | - |
| Grants | - | - |
| Charges for Services | - | - |
| Contributions | 2,672 | 2,672 |
| Miscellaneous | - | - |
| Interest Income | - | - |
| TOTAL REVENUES | <u>2,672</u> | <u>2,672</u> |
| <u>EXPENDITURES:</u> | | |
| General Government | - | - |
| Public Safety | 2,231 | 2,231 |
| Highways & Streets | - | - |
| TOTAL EXPENDITURES | <u>2,231</u> | <u>2,231</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 441 | 441 |
| <u>OTHER FINANCING SOURCES (USES):</u> | | |
| Operating Transfers In | - | - |
| Operating Transfers Out | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>-</u> |
| NET CHANGES IN FUND BALANCES | 441 | 441 |
| FUND BALANCE - BEGINNING OF YEAR | 3,341 | 3,341 |
| FUND BALANCE - PRIOR YEAR ADJUSTMENT | - | - |
| FUND BALANCE - END OF YEAR | <u>\$ 3,782</u> | <u>\$ 3,782</u> |

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